

**CITY OF MARICOPA, ARIZONA
POLICY GUIDELINES AND APPLICATION PROCEDURES
FOR THE ESTABLISHMENT OF
COMMUNITY FACILITIES DISTRICTS**

In order to secure for the City of Maricopa, Arizona (the “City”) the benefits of the Community Facilities Act (the “Act”) enacted by the Arizona Legislature in 1988 the following Policy Guidelines and Application Procedures have been adopted by the City Council.

Community Facilities Districts (the “CFD”) provide a funding mechanism to finance the construction, operation, and maintenance of public infrastructure within the boundaries of the community facilities district, and to better enable the City to provide municipal services within the boundaries of the district. In order to permit the City Council to make a reasonable judgment as to whether or not to establish a CFD and upon what terms, the City Council has established these Policy Guidelines and Application procedures.

**ARTICLE I
General Policies**

- 1.1 CFD’s should be utilized primarily in connection with the financing of infrastructure for development of residential projects, master planned communities or substantial commercial development. CFD’s may also be utilized to provide an enhanced level of public infrastructure amenities and/or municipal services. Public improvements financed by a CFD should be in conformance with the City’s General Plan and with the CFD’s General Plan filed with the City’s Clerk.
- 1.2 All costs incurred by the City in connection with the application and formation shall be paid by the applicant/landowner through advance payments as provided herein. Payment shall include payment for services rendered by City staff, services rendered by outside consultants who may be retained by the City, including but not limited to bond counsel, financial advisors, engineers, appraisers and attorneys. If the City uses outside consultants as “staff,” such as attorneys or engineers, those consultants will also be paid their normal rate for services rendered. If authorized by the CFD exercising its sole and absolute discretion, all or part of such costs may be reimbursed to the applicant/landowner from a CFD tax levy, CFD assessments, CFD revenues or CFD bond proceeds provided such reimbursement is in conformance with federal and state laws and these guidelines.
- 1.3 The City will encourage an area to be governed by as few CFD’s as possible, and a preference will be given to one master CFD. This policy is adopted to provide ease of administration and the largest tax/revenue base possible. The decision to form a CFD shall be a decision of the City Council exercised in its sole and absolute discretion.
- 1.4 The CFD will be governed by a Board of Directors (the “Board”) comprised of the members of the City Council, or by members appointed by the City Council. If the City Council, at their sole and absolute discretion, elects to appoint a Board of Directors, then that Board of Directors will serve at the pleasure of the City Council and for terms to be determined by the City Council.

- 1.5 Unless otherwise agreed to by the City, the CFD must be self-supporting from the standpoints of financing, operations and maintenance and no City funds will be used for CFD purposes. Notwithstanding anything contained herein, neither the property, the full faith and credit nor the taxing authority of the City shall be pledged to secure the payment of any CFD obligation or indebtedness. The City Council, at their sole and absolute discretion, may require the applicant/landowner to place funds into escrow, for the benefit of the CFD, to secure payment of future operating and maintenance costs.
- 1.6 The Board will determine, in its sole and absolute discretion, the amount, timing and form of financing to be used by a CFD after review of the project feasibility reports.
- 1.7 In the case where the CFD will utilize debt financing to fund the infrastructure proposed by the applicant, the Board, and/or the City Council, reserves the sole and absolute right to appoint any or all of the consultants normally engaged by the City in relationship to a public or private debt offering. These consultants include, but are not limited to; bond counsel, bond underwriters, financial advisors, accountants, economists, and appraisers. The costs associated with these consultants, whether appointed by the Board and/or the City Council, or by the applicant will be borne by the applicant.
- 1.8 The CFD will construct or finance only those improvements included in the CFD's general plan utilizing public bidding procedures normally followed by the City unless otherwise agreed to by the Board in its sole and absolute discretion.
- 1.9 The CFD will not use bond proceeds or other CFD funds to purchase, lease, or otherwise acquire, public rights-of-way or other real property to be used for public infrastructure improvements from the applicant/landowner if such real property would be required to be dedicated and conveyed to the City by the applicant/landowner upon development of the property.
- 1.10 Unless otherwise agreed to by the City, all costs of administration and operation of the CFD and the operation and maintenance of public infrastructure in the CFD shall be the responsibility of the CFD, the applicant/landowner, applicable homeowners associations, or any combination of the foregoing, as may be acceptable to the City and the CFD.
- 1.11 These Policy Guidelines and Application Procedures may be modified by experience and special circumstances. Any applicant will be given the opportunity to propose alternative approaches to those provided herein, with the understanding that concerns of the City must be adequately addressed before the staff of the City will recommend approval of a CFD to the City Council.

ARTICLE II

Contents of Application

- 2.1 All applications for the formation of a CFD shall be submitted to the City. Each application shall, at a minimum, contain the following:
 - 2.1.1 A General Plan for the CFD setting out a general description of the public infrastructure improvements for which the district is proposed to be formed and the general areas to be improved.

- 2.1.2 A description of the proposed CFD, including a legal description of its boundaries, identity and addresses of all persons or entities with any interest in the property, and the names and addresses of any qualified electors located within the proposed boundaries. A current title report and certificate from the county elections department shall be submitted as evidence of the names of persons with any interest in the land and qualified electors. The description must contain an analysis of the appropriateness of the CFD's proposed boundaries.
- 2.1.3 A description of the types of public infrastructure to be financed by the CFD, including the estimated construction or acquisition costs of the public infrastructure, the estimated annual operation and maintenance costs of the public infrastructure and the federal, state, county and city governmental approvals that will be required for both the public and private improvements to be constructed and operated.
- 2.1.4 A proposed project schedule for commencement and completion of (a) the public infrastructure, and (b) private development.
- 2.1.5 A financing plan for the public infrastructure, including both capital and operating and maintenance costs.
- 2.1.6 A financial feasibility study for the entire project (or such phases of the project that are expected to be constructed within five (5) years of submission of the Application) covering both the public infrastructure and the private development. This should include:
 - 2.1.6.1 An analysis of how the proposed debt financing, operation and maintenance costs, user charges and other CFD costs will impact the ultimate end users of the property, specifically projected ad valorem taxes and ad valorem tax rates, special assessments, fees, charges and other costs that would be borne by property in the CFD. The analysis should address the impact these costs will have on the marketability of the private development and a comparison of proposed tax rates and charges in adjoining similar areas outside of the proposed district.
 - 2.1.6.2 A financing plan for the private development in the CFD.
 - 2.1.6.3 A market absorption study for the private development in the CFD prepared by an independent consultant acceptable to the City. Such study shall include estimates of the revenue to be generated by the development and an estimate of the ability of the market to absorb the development as well as a market absorption calendar for the private development.
- 2.1.7 A description of the proposed equity contributions from the applicant/landowner and a calendar showing the timing and sources of such equity contribution. A description of the applicant's professional experience and evidence demonstrating its financial capacity to undertake the development associated with the public infrastructure and private development.
- 2.1.8 A disclosure form to explain the expected and possible tax, assessment and other financial burdens of the CFD to prospective CFD landowners. Upon each sale of property in the CFD, the developer and owner shall file with the City a receipt, signed by the purchaser that acknowledges the purchaser's receipt of the disclosure form. Landowners/developers are required to describe in their promotional material the financial and other relative impacts on the development(s) being included in the CFD. Copies of the disclosure form must be placed on file with the District Clerk.

Subsequent addendums, deletions, or other changes to the disclosure form must be approved by the Board and filed with the Clerk prior to distribution to the public.

- 2.1.9 An operating plan for the CFD, i.e. what functions the CFD will provide and how the operation and maintenance of the infrastructure and all other services in the CFD will be provided.
- 2.1.10 A description of how the proposed CFD meets the existing development objectives of the City, including the degree to which the District is consistent with the goals of the City's General Plan for promoting orderly development, consistent with the growth management policies and zoning requirements and the degree to which the land use plan for the CFD is consistent with the City's General Plan Map for the area.

ARTICLE III

Application Procedures

- 3.1 Ten (10) copies of the application for the formation of a CFD shall be submitted to the Finance Director of the City who shall coordinate an inter-departmental analysis of each application.
- 3.2 At the time of submission of the application, the applicant shall pay a non-refundable application fee of \$ 25,000 and shall deposit an additional \$ 5,000 as a deposit on account to be applied by the City, at its sole and absolute discretion, to the costs incurred in connection with the processing and review of the application and the formation of the CFD. When such \$ 5,000 (and each subsequent amount hereinafter described) is expended, and accounting will be made to the applicant for all costs incurred by the City and an additional \$ 5,000 will be requested and must be paid forthwith.
- 3.3 If the City Council approves the formation of a CFD and there are existing agreements with developer/landowners for the provision of infrastructure proposed to be furnished in the CFD, then those agreements will be deemed amended to reflect the agreements and conditions pertaining to the CFD. The amendments will reflect that such infrastructure improvements will be provided (including by acquisition) by either the developer/landowner or the CFD.
- 3.4 After the application fee and deposit are submitted, the Finance Director shall arrange a submittal conference with the appropriate City staff for the purpose of reviewing the application for conformity with City policies.
- 3.5 If, following the submittal conference or any other time during the application process City staff requests additional information, the applicant shall provide any and all supplemental information requested.
- 3.6 After analysis of an application as supplemented, City staff, under the direction of the Finance Director, may prepare a report including recommendations relating to the CFD, an analysis of the impact of the formation of the CFD and its effects on the City. The report may provide a recommended disposition of the application and any additional requirements that may be placed on the applicant/landowner and the CFD.
- 3.7 If all costs billed to or incurred by the City have been paid by the applicant by a date at least fourteen (14) days prior to the date of the meeting the City Council at which the application is to be considered, and if the application meets the qualifications

herein, the application along with any report and recommendations by City staff will be forwarded to the City Council.

- 3.8 If the City Council approves an application for formation of a CFD, the applying applicant/landowner and the staff of the City shall coordinate a schedule of events for formation of the CFD and shall negotiate an appropriate agreement between the City and the applicant/landowner which shall be entered into prior to formation of the CFD, which shall incorporate the requirements of any report, recommendations of the City staff relating to such CFD, the requirements of these policy guidelines and any other restrictions, provisions and agreements required by the City.
- 3.9 Upon approval of the application for the formation of a CFD by the City Council, the Council shall proceed with the district formation procedures as defined in the Arizona State Statutes.

ARTICLE IV

CFD Operations and Debt Financing

- 4.1 Upon formation of a CFD the developer/landowner shall deposit with the CFD a non-refundable administrative expense fee in the amount of \$ 20,000. The administrative expense fee shall be applied by the CFD to the costs and expenses incurred in connection with the formation, review of the feasibility study, election costs, administration, operation and maintenance of the CFD or its public improvements. From time to time, upon depletion of the administrative expense fee, the CFD may request, and the developer/landowner shall promptly deposit with the CFD, additional \$ 5,000 deposits to be applied to the purposes contemplated in this Article.
- 4.2 In order to provide for the CFD to be self-supporting for its administrative, operational and maintenance expenses the City and the CFD, unless otherwise agreed, will require the imposition of a \$ 0.30 per \$ 100 of assessed value ad valorem tax upon the CFD taxable property. Failure to impose such tax will relieve the City and the CFD from undertaking any obligations or operations.
- 4.3 The amount of debt of a CFD may not have any substantial direct or indirect negative impacts on the debt or financing capabilities of the City, and second, that the debt imposed on the CFD not impose an unreasonably high financial burden on future CFD residents and commercial property owners. In connection with any request for debt financing, applicant shall provide a current appraisal of the fair cash market value of the property within the proposed district which will be taxed or assessed prepared by a person who is designated as a Member Appraisal Institute (“MAI”) and a certified general real estate appraiser (such person hereafter referred to as a “MAI Appraiser”), such appraiser and appraisal to be in form and substance acceptable to the City in its sole and absolute discretion.
- 4.4 General Obligation Bonds of the CFD are secured by an ad valorem tax on all taxable property located within the CFD. An applicant for general obligation bond financing shall describe in each project feasibility report the following:
- 4.4.1 The current direct and overlapping tax and assessment burden on the taxable property that is proposed to be taxed and the full cash value and assessed valuation of the taxable property as shown on the most recent assessment roll.

- 4.4.2 The amount and timing of CFD general obligation bonds to be issued.
- 4.4.3 The expected market absorption of development within the CFD.
- 4.4.4 The effect of the CFD bond issuance on CFD tax rates, calculated as of the beginning, midway through and at the end of the market absorption period or based on the phasing of the project to be financed, as applicable.
- 4.4.5 Estimated savings, if any, to residents in the form of reduced sales prices which are projected to result from CFD financing.
- 4.4.6 Any plan for subsidizing CFD tax rates.
 - 4.4.6.1 Any plan for subsidizing CFD tax rates and collections that utilizes a written agreement from a third party or parties (collectively, the “Obligated Party”), wherein the Obligated Party agrees to pay all or a portion of the debt service on any general obligation bonds of a CFD that is not paid by tax collections levied and received for such purpose (such as a standby contribution agreement) (the “Subsidy Payment Agreement”) shall comply with the following conditions, in addition to such other conditions established by the Board:
 - 4.4.6.1.1 The Subsidy Payment Agreement shall constitute a valid, enforceable agreement against the Obligated Party, and the obligation to pay the Subsidy Amount (as defined herein) shall not be subject to any set off, claim or encumbrance.
 - 4.4.6.1.2 The secondary tax rate to be levied for the CFD with respect to any bonds assuming payment of the Subsidy Amount (the “Target Tax Rate”) shall be approved by the Board;
 - 4.4.6.1.3 The maximum secondary tax rate, from time to time, for the CFD with respect to any bonds, assuming no payment of the Subsidiary Amount (the “Nonpayment Tax Rate”) shall not exceed the Target Tax Rate by more than \$ 1.00 per \$ 100 of secondary assessed valuation (such \$ 1.00 or less of additional tax rate in the event of nonpayment of the Subsidy Amount shall be referred to as the “Tax Rate Exposure”);
 - 4.4.6.1.4 The Obligated Party shall be required to pay the amount necessary to cause the actual secondary tax rate levied to be not greater than the Target Tax Rate (the “Subsidy Amount”);
 - 4.4.6.1.5 For purposes of calculating the Target Tax Rate and the Nonpayment Tax Rate the assessed valuation of the CFD shall use, on the date of the applicable calculation, the actual values and property classifications shown on the tax rolls of the County Assessor (“Assessor”) that are established each year or, if more current, the values shown on the Assessor’s special districts extract for the CFD (the “AV”);
 - 4.4.6.1.6 The CFD subject to the Target and Nonpayment Tax Rates shall contain at least 500 completed single-family residential units as shown on the most recent tax rolls;
 - 4.4.6.1.7 The Obligated Party shall have an audited net worth at all times during the term of the Subsidy Payment Agreement of at least five (5) times the principal amount of the bonds that are supported by the then applicable Subsidy Amount and in the event the net worth of the Obligated Party is less than the amount required by this subparagraph, the Obligated Party shall promptly pay, cause the redemption or defeasance of or post with the District other collateral (such as a surety bond, letter of credit or cash) satisfactory to the District, at the Board’s sole and

absolute discretion, in the principal amount of bonds necessary to comply with the provisions of this subparagraph. The Obligated Party will file with the Clerk of the District a copy of its audited financial statements, no less than annually, and within thirty (30) days of the completion of said audit. No City or CFD funds shall be used to pay for said audit:

- 4.4.6.1.8 The Subsidy Payment Agreement shall provide for the annual payment of the Subsidy Amount pertaining to the next succeeding fiscal year not later than March 30th of each year;
- 4.4.6.1.9 For purposes of calculating the Target and Nonpayment Tax Rates, the AV shall exclude the secondary assessed value of any taxable property in the CFD owned by the Obligated Party or owned by any entity owned or controlled by any Obligated Party (the “Controlled Parties”) (for purposes of this subparagraph, “owned or controlled by” shall mean any entity of which 50% or more of the ownership interests are owned or controlled by an Obligated Party) if the Obligated Party or Controlled Parties, in the aggregate, own parcels totaling twenty percent (20%) or more of the AV of the CFD;
- 4.4.6.1.10 In no event shall the aggregate of all Tax Rate Exposures of any CFD and any overlapping CFD’s exceed \$ 1.25 per \$ 100 of secondary assessed valuation; and
- 4.4.6.1.11 The Subsidy Payment Agreement shall not adversely affect the tax-exempt status of any related bonds and shall be delivered with all certificates and opinions required by the CFD.
- 4.4.6.1.12 Publicly offered bonds must be rated in one of the four highest investment grade ratings from a nationally recognized bond rating service, i.e. Moody’s or Standard & Poor’s Corporation. Privately placed bonds need not be rated; however purchasers of such privately placed general obligation bonds must be “qualified institutional buyers” (as such term is defined in Rule 144A of the Securities and Exchange Commission) and must agree not to resell the bonds except to “qualified institutional buyers” in a private placement, provided however, that a purchaser of privately placed general obligation bonds may sell the bonds in a public offering if the Board approves the public sale and the bonds have received an investment grade rating.
- 4.4.6.2 Revenue Bonds shall be payable solely from a CFD revenue source. An applicant for revenue bonds shall describe in each project feasibility report the following:
 - 4.4.6.2.1 The current direct and overlapping tax and assessment burdens on the property within the CFD and the full cash value and assessed valuation of that taxable property as shown on the most recent assessment roll.
 - 4.4.6.2.2 The City reserves the right to require the applicant to produce such independently prepared feasibility studies or reports as it deems necessary to confirm the amount and availability of sufficient revenues to meet the debt service requirements of the bonds.
 - 4.4.6.2.3 The expected market absorption of development within the CFD.
 - 4.4.6.2.4 The amount and timing of CFD revenue bonds to be issued.
 - 4.4.6.2.5 The financial impact of the proposed issues on prospective residents.
 - 4.4.6.2.6 Publicly offered bonds must be rated in one of the four highest investment grade ratings from a nationally recognized bond rating service, i.e. Moody’s or Standard & Poor’s Corporation. Privately placed bonds need not be rated;

however purchasers of such privately placed revenue bonds must be “qualified institutional buyers” (as such term is defined in Rule 144A of the Securities and Exchange Commission) and must agree not to resell the bonds except to “qualified institutional buyers” in a private placement, provided however, that a purchaser of privately placed revenue bonds may sell the bonds in a public offering if the Board approves the public sale and the bonds have received an investment grade rating

4.4.6.3 Assessment Bonds shall be secured by first lien (subject only to the lien for general taxes and prior special assessments) on the property benefited. Applicants for assessment bonds shall describe in each project feasibility report the following:

4.4.6.3.1 The current direct and overlapping tax and assessment burdens on real property to comprise the district and the full cash value and assessed valuation of that property as shown on the most recent assessment roll.

4.4.6.3.2 The amount and timing of district assessment bonds to be issued.

4.4.6.3.3 The expected market absorption of development within the district.

4.4.6.3.4 The assessment burden to be placed on the prospective assessed parcels.

4.4.6.3.5 Rated publicly offered bonds must be rated in one of the four highest investment grade ratings from a nationally recognized bond rating service, i.e. Moody’s or Standard & Poor’s Corporation. In an unrated public offering, an appraisal of the land to be encumbered, prepared by a MAI Appraiser, whose qualifications and work product must be acceptable to the Board in its sole and absolute discretion, shall indicate a land value (assuming construction or acquisition of the improvements discussed in the feasibility report) to debt ratio of at least 5 to 1 prior to the issuance of debt. Privately placed bonds need not be rated, however the purchasers of such assessment bonds must be “qualified institutional buyers” (as such term is defined in Rule 144A of the Securities and Exchange Commission) and must agree not to resell the bonds except to “qualified institutional buyers” in a private placement. Further, in connection with the sale of unrated privately placed assessment bonds, the Board must have received an appraisal of the land to be encumbered, prepared by a MAI Appraiser, whose qualifications and work product must be acceptable to the Board in its sole and absolute discretion, that shall indicate a land value (assuming construction or acquisition of the improvements discussed in the feasibility report) to debt ratio of at least 3 to 1 prior to the issuance of debt. If a 3 to 1 ratio is not achieved, a scaling down of the proposed debt and phasing of the infrastructure is expected.

4.4.6.4 Notwithstanding the restrictions pertaining to public sales and private placements of the bonds set forth in this Article, the restrictions may be modified if other financing structures are presented which, in the sole and absolute discretion of the Board, provide other means to address CFD concerns.

ARTICLE V

Financing Considerations

5.1 The applicant or developer/landowner shall provide a minimum of \$.25 in infrastructure or community improvements for each \$ 1.00 of debt issued by a CFD to finance public infrastructure purposes. If agreed to by the Board, in its sole and

absolute discretion, prior infrastructure and community improvements constructed or acquired by the applicant or the developer/landowner may be included in calculating the applicant's or developer/landowner's compliance with this subparagraph. However, in no case shall an offset credit for purposes of this paragraph, be allowed for public infrastructure and/or community improvements constructed or acquired by an applicant or developer/landowner as a result of a stipulation contained in a final plat agreement for development in the City.

- 5.2 If allowed by law, all bond issues shall include a debt service reserve fund acceptable to the Board, in its sole and absolute discretion.
- 5.3 A general obligation bond authorization for a CFD shall expire no later than twenty (20) years from the date of voter authorization.
- 5.4 The applicant or the developer/landowner (or such other third part acceptable to the City and the CFD), shall indemnify the City and the CFD and their agents and employees harmless for, from and against any and all liabilities, claims, costs and expenses, including attorney's fees, incurred in any challenge or proceeding to the formation, operation, administration of the CFD, the offer and sale of CFD bonds, the levying by the CFD of any tax, assessment or charge and the operation and maintenance of public infrastructure financed or owned by the CFD.
- 5.5 Unless otherwise provided to the City pursuant to other requirements prior to CFD financing and acquisition by the CFD or City, the CFD and City will require an independent environmental report or assessment of any real property which will be dedicated to or otherwise owned, leased or operated by the City or the CFD and a proposed form or indemnity agreement with respect to all environmental law liability.
- 5.6 The applicant or the developer/landowner shall be responsible for all costs and expenses incurred in any assessment modifications.